



MEMORANDUM

TO: Mayor and Council Members
Toby Hammett Futrell, City Manager

FROM: Juan Garza, General Manager
Austin Energy

DATE: February 1, 2007

SUBJECT: Critical Business Need for Four Power Transformers

Pursuant to City Council approved AE purchasing procedures, I am designating the purchase of four transformers from Hyundai Heavy Industries as a critical business need.

Austin Energy has had a price agreement with Hyundai Heavy Industries for the purchase of power transformers. The agreement entered into in January of 2006 expires on January 31, 2007 unless both parties are agreeable to a one year extension. Due to market price influences, Hyundai is not able to extend the price agreement at this time within the constraints of the contract terms and conditions.

Austin Energy has a system need to purchase four (4) 138/12.5 kV, 30 MVA transformers by early 2008. The first three units are needed to replace three aging 20 MVA units at Cardinal Lane Substation and the fourth to replace one operationally limited unit at Hidden Valley Substation.

The existing Cardinal Lane units are over 35 years old and have exceeded their expected life. The associated switchgears are obsolete and increasingly difficult to repair because spare parts are no longer available. The installation of the new units will complete the conversion of Cardinal Lane to 138 kV and expand the onsite transformation capacity to allow the station to pick up load currently served by Zilker Substation. This will position AE to follow through on its long-standing commitment to permanently retire the Zilker Substation located in the Town Lake Park. Also, recent transmission studies have shown that unless the Burleson to Cardinal Lane and Cardinal Lane to Seaholm 69 kV transmission lines are converted to 138 kV as planned, the Burleson to Pedernales 138 kV line will become severely overloaded (118%) during the summer of 2008 in the event of loss of the McNeil-Summit/McNeil-Mag Plant double circuit line. Installing the three new units at Cardinal Lane will enable AE to convert the Burleson-Cardinal Lane-Seaholm lines and prevent the Burleson-Pedernales line from overloading under that contingency.

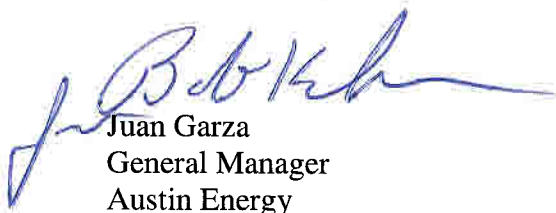
The fourth transformer for the Hidden Valley Substation is to replace an existing 30 MVA unit which begins to overheat during summer months when loading reaches approximately 20 MVA. It needs to be replaced with a new 30 MVA unit to provide adequate support to growing loads in the Hidden Valley area. The existing unit will be refurbished after removal to be available to serve growing loads as needed in other areas of the system.

The normal purchasing process for transformers could take as long as 90 days and current delivery is running 12-18 months. As such I am requesting authorization for AE to expedite the purchasing process, as a critical business need to assure system preparedness before 2008 summer loads. Austin Energy currently has two quotations for the purchase of transformers with delivery in early 2008. Hyundai and Waukesha have supplied quotations.

Hyundai Heavy Industries	\$939,642.00	Delivery 2/2008 and 4/2008
Waukesha Electric	\$1,180,285.00	48-52 weeks
Waukesha Electric-alt	\$1,121,500.00	Delivery 12/2007

I recommended that Austin Energy accept the quotation from Hyundai Heavy Industries and enter into an agreement for the purchase of 4 30MVA, 138kV/12.5kV transformers. The purchase order must be given to Hyundai no later than February 15, 2008 in order to meet our delivery needs.

Austin Energy plans to bring this item forward for consideration by the City Council in the near future. Please let me know if you have any questions. I can be reached at 322-6002.



Juan Garza
General Manager
Austin Energy